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Relation of maintenance to depreciation

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from 25 to 35 per cent., there is still a long stretch to the level of pre-war prices. Whether or not this level will again be reached is of course in question. The public hopes the decline will continue. Economists think that it will. It is, therefore, generally admitted that industry is heading into a period where costs will be more vital than ever before. The competitive basis is being rapidly restored. Cost reduction will be an economic necessity rather than the result of an economic incentive.

Many associations of manufacturers are giving attention to uniform cost systems. Not long since, the International Association of Garment Manufacturers arranged through its Cost Committee to prepare and promulgate the instructions for installing a uniform cost system for the use of its members. The association has wisely laid out a program of education the purpose of which is to build up within the organizations of the various members a competent staff which will facilitate the introduction and operation of the system. A Central Cost Council directed by a permanent

salaried head, the creation of Regional Cost Councils, and the advisory assistance of a professional firm are all contemplated in the plan.

The value of this sort of thing is apparent. The printing industry bears evidence of the fact. It was among the pioneers in the movement. No one who has occasion to pay printers' bills doubts the service which the cost system has rendered to the printing trade. Printers' prices may be high, but when the printers are forced to stand a reduction they will know where and how much they can afford to allow without suffering an ultimate loss.

While the present tendency of manufacturers is toward association, and uniform systems of one kind or another are the natural consequence, the individual organization, whether in or out of an association, must give increasing thought to the matter of costs and their reduction. The present economic situation demands it as a matter of successful economic existence. The executive without accurate cost information is like a mariner without a compass.

Relation of Maintenance to Depreciation

GREAT difficulty seems to be experienced by the average person in deriving a true conception of depreciation, even from the most lucid definitions and explanations, because of the element of maintenance. It is difficult for him to understand, why, if a unit of equipment is maintained in a maximum state of operating service and efficiency, through repair and replacement of parts, provision should be made for depreciation. Such is the explanation frequently offered as to why no charge is made.

Depreciation has received probably more attention at the hands of authors than any other subject of accounting discussion. It

has been defined and redefined; explained, elucidated, and illustrated. Court cases have been cited and discussed. But apparently we are scarcely nearer to a clear conception than before.

Depreciation has been substantially defined as "the decrease in the value of an asset due to deterioration through lapse of time, wear and tear, obsolescence, or change of ownership." No reference, it will be noted, is made to maintenance. Neither deterioration, obsolescence, nor change of ownership may be construed as such. But unfortunately many persons associate wear and tear with the defections in operation which are corrected by repairs

and replacements. Such idea, however, it is not the intention of the definition to convey.

An engine allowed to stand idle and without care will deteriorate and hence depreciate even though it may never have turned a wheel in service. Goods which lie on shelves without protection and attention lose value, as do samples. These illustrations of deterioration are too obvious to provoke contradiction.

The invention of a new machine which makes production with an old type too expensive for successful competition illustrates the somewhat nebulous factor of obsolescence. A change of styles in the matter of wearing apparel likewise results in depreciation of which obsolescence is the cause.

A typewriter which has passed from a dealer to the first purchaser will scarcely bring the original sale price, even though it may never have been operated, because it is second-hand.

A falling price level, though not mentioned in the above definition and seldom, if ever, mentioned elsewhere, is one of the most striking causes of depreciation. The lack of consideration given by authors to this cause is probably traceable to the fact that during the period in which most of the discussion of depreciation has taken place the price level has been rising instead of falling. From the present indications it must hereafter be taken into account.

So far as the foregoing factors are concerned, with the exception that the ordinary mind balks a trifle at conceiving a possible measurement of obsolescence, there appears to be scant difficulty in justifying depreciation. But the wear and tear factor looms large as an obstacle when one attempts to carry conviction on the whole question.

The life of every item of equipment must necessarily at some time come to an end. The best of care when in and out of operation, the repair of defections as they

occur, the replacement of parts from time to time, may defer the fatal day. But nothing on earth can prevent it. And when that time comes there will be a difference between the amount originally invested in the equipment and the amount which it will bring as scrap. Eliminate from the causes deterioration, obsolescence, change of ownership, and a falling price level, assuming they do not apply, and there remains but one thing, namely, that the equipment is worn out. There is a loss which inevitably must be faced. No amount of maintenance will prevent it. The wear and tear in excess of maintenance must eventually be considered.

It is because of this as well as the other factors of depreciation that modern practice attempts to take into account the probable life of physical property and to distribute the loss over such life. Thus is the charge more nearly equalized from year to year instead of allowing the total loss to fall in any one year. The basis also appears to be well founded which requires the depreciation to be computed on a declining balance, thus throwing the heaviest charges for depreciation in the early years, since maintenance usually increases with the age of the property.

Kansas City Consolidation

We have pleasure in announcing, under date of February 1, 1921, the consolidation with our own of the practice conducted in and about Kansas City, Missouri, by Mr. F. M. Weaver. Our Kansas City Practice Office will be continued at 1111 Grand Avenue Temple. Mr. Weaver will be associated with Mr. Page Lawrence in the management of the office.

Mr. Weaver was with the firm for a time in 1899. He is a certified public accountant of Missouri, and has lived for many years in Kansas City, where he is well and favorably known, and where he has built up a substantial practice.